BC Pacific Capital Corporation

1998 Annual Report

CONTENTS

B.C. PACIFIC CAPITAL CORPORATION is a British Columbia based financial and investment corporation providing acquisition bridge financings and management services to corporations encountering financial difficulties, requiring merger and acquisition advice or operational evaluation. B.C. Pacific also uses its own capital to invest in undervalued companies, primarily in the natural resource, real estate and financial service area where management initiatives can enhance longer term prospects. B.C. Pacific is an affiliate of Trilon Financial Corporation.

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of
B.C. Pacific Capital Corporation
will be held at 1500 – 1040 West Georgia Street
Vancouver, B.C. on June 24, 1999 at 11:00 a.m.

Message to Shareholders

FINANCIAL RESULTS

B.C. Pacific maintained a satisfactory financial performance during 1998. Net income for the year was $16.4 million compared with $15.7 million in 1997. After providing for dividends on the Company's preferred shares, one of which is based on a floating interest rate, earnings per Class A subordinate voting share and Class B common share were 0.72¢ compared with 0.70¢ in 1997.

MERCHANT BANKING ACTIVITIES

During the year, B.C. Pacific continued to maintain a conservative approach to committing its capital. Extremely low commodity prices in the natural resource sector, a stagnant British Columbia economy and continuing high asset valuations as a result of significant pools of capital searching for higher investment yields, combined to create a difficult economic environment and as a result there were few attractive merchant banking opportunities.

Notwithstanding this overall environment, a significant number of potential transactions were reviewed, ranging in size from $5 million to well over $100 million. One new participating loan was committed to assist one of our clients in the completion of a recreational real estate development.

Over the next several years, B.C. Pacific will continue to stress its commitment to developing longer term relationships with a limited number of qualified clients, maintaining a high level of knowledge in each client's business affairs and future financing requirements in order to respond quickly and effectively as transactions materialize.

INVESTMENT ACTIVITIES

B.C. Pacific invests in securities of a number of public and private corporations. Our objective is to earn an acceptable rate of return from dividends and capital appreciation without exposure to unreasonable risk. These investment activities are supported by ongoing research to determine the underlying values for each of the companies selected which comprise core investment positions.

As B.C. Pacific's investment portfolio is weighted to natural resources, financial services and real estate companies, earnings in some of these investments and their share prices continued to show cyclical improvement as the economy expanded. During the year, security positions in the financial services area reached levels where underlying values were fully reflected and were sold with gains realized.

FINANCIAL ADVISORY AND MANAGEMENT SERVICES

A new focus for 1999, will be providing financial advisory services to our clients, in addition to capital, primarily in the areas of acquisitions, bond financings, restructurings and business dispositions. B.C. Pacific's industry specialization and focus on personal service will be important strengths in securing new advisory assignments.

B.C. Pacific intends to make its presence felt in this competitive sector by adopting a value-added approach, focusing on those industries where B.C. Pacific has access to specialized expertise. building long-term client relationships and being sensitive to clients' needs.

CORPORATE INVESTMENTS

In 1998, B.C. Pacific increased its interest in the MGS Partnership to 100%. MGS is primarily involved in residential real estate development in Toronto. Real estate values continued to improve in Toronto as a result of strong economic growth in the region. This has led to increased housing sales and higher prices. During 1998, all remaining condominium units were sold at or above target prices. Land in Vancouver and Toronto that was being held for redevelopment was also sold. As a result of these transactions, the original objectives established at the time of the Corporation's investment in MGS have now been substantially achieved.

B.C. Pacific also holds a large piece of commercial land strategically located in central Toronto which it acquired a number of years ago when prices were depressed. Work continues on the redevelopment of this site and discussions are currently under way with several joint venture partners.

During the year, B.C. Pacific acquired a minority interest in a residential real estate investment and holding company as it is believed values underlying its assets will appreciate over the medium term.

STRATEGIC INITIATIVES

In 1998, B.C. Pacific began a process of simplifying its corporate structure and modifying its capital base to better position the Company. On June 26th, 1998, the Company completed the acquisition of all of the outstanding shares of BRL Enterprises and completed an amalgamation of BRL and B.C. Pacific at the end of the year. Looking ahead to 1999, B.C. Pacific will be re-assessing the efficiency of its capital structure with a view of ensuring that it is properly configured to maximize future earnings.

OUTLOOK

Our primary objective for 1999 is to continue with our business plan of expanding our merchant banking activities, primarily focussing on providing short-term mezzanine bridge loans for clients requiring capital to facilitate transactions. While they occur infrequently, asset workouts and financial restructuring of companies experiencing short-term difficulties will also be pursued.

With the Asian economic climate improving, commodity prices strengthening and improved prospects for the B.C. economy, the Company anticipates that a better overall climate will result in more opportunities which will fit B.C. Pacific's merchant banking mandate.

On behalf of the Board of Directors.

Brian G. Kenning
Managing Partner and Chairman

Terry A. Lyons
Managing Partner and President

May 6, 1999

Business Activities

B.C. Pacific has substantial financial resources to assist its clients in executing their strategic initiatives. In its merchant banking activities, B.C. Pacific provides financing to facilitate the completion of acquisitions or the refinancing of existing obligations.

B.C. Pacific takes a partnership approach in setting the terms of financings. Typically, B.C. Pacific will minimize its up-front fees and earn a significant portion of its rewards by way of a participation in the successful outcome of the client's initiatives. This ensures that B.C. Pacific's interests are aligned with those of its clients.

ACQUISITION BRIDGE FINANCING

Successful acquisitions often require the ability to react quickly and to demonstrate the commitment of the necessary financing. Traditional lenders may be unable to provide such a commitment on short notice due to structuring issues or perceived risks. Furthermore, the capital markets may not be available until such time as the market can digest the potential impact of the acquisition.

B.C. Pacific's merchant banking group is well positioned to bridge such short-term financing needs. With a significant capital base, a supportive major shareholder, extensive knowledge of the capital markets and an experienced management team. B.C. Pacific has the ability to assist its clients in financing both large and small acquisitions. Furthermore, B.C. Pacific's focus on specific industries and a select number of clients ensures prompt and efficient execution.

Clients value B.C. Pacific's ability to respond promptly in providing them with the short-term financing to complete an acquisition. This enables clients to focus on the immediate needs of the acquisition and provides time to prepare the information and material necessary to arrange lower-cost, long-term permanent financing.

The financings provided by B.C. Pacific typically take the form of senior secured loans in amounts between $5 million and $100 million. B.C. Pacific has the capability of financing much larger transactions on a syndicated basis through its shareholder affiliations and its network of institutional relationships.

The time period for which capital is committed varies according to the nature of each transaction. However, B.C. Pacific prefers to commit its capital for terms of less than one year. Institutional partners are invited to provide longer-term financing, if necessary.

B.C. Pacific takes a conservative approach to lending when it comes to transaction values. The funds provided are normally protected by the underlying security of the assets or through additional security and guarantees provided by its clients. This enables B.C. Pacific to reduce its risk as well as the cost of capital provided to its clients.

REFINANCING ACTIVITIES

B.C. Pacific provides advice and capital to corporations repositioning their assets to improve profitability and enhance shareholder values, or to complete a financial restructuring where the amount or nature of their debt is large in relation to their equity or current earnings base.

Occasionally companies reach a point where their existing financing arrangements prevent them from being able to implement their business plans. This may be due to the maturing of existing credit facilities at a time when market conditions arc unfavourable, or because unexpected events have temporarily impaired a company's ability to maintain or attract financing.

B.C. Pacific assists clients who have sound long-term business plans to overcome short-term financing constraints. B.C. Pacific provides the necessary financial and management support to bridge the company's immediate needs in order to protect the long-term enterprise value. B.C. Pacific's patient approach to corporate restructurings enables a broad range of alternatives to be explored in finding the correct solution.

B.C. Pacific's management team has extensive experience in developing and executing corporate restructurings and refinancings. B.C. Pacific's senior executives bring a broad range of practical experience to restructuring assignments, having participated in many major acquisitions and divestitures and managed a number of large corporate reorganizations. These assignments can involve developing business and financing plans, preparing information books for specific purposes and monitoring a company's affairs on an ongoing basis on behalf of lenders or equity investors. In doing this, B.C. Pacific works closely with management, shareholders and lenders. During a workout assignment, B.C. Pacific ensures that all parties are fully informed, that relative exposures are recognized, and that sufficient time and support are committed to implement the refinancing or restructuring program.

B.C. Pacific's merchant banking operations are focused on providing short-term bridge loans to facilitate transactions for clients primarily within thc natural resource and real estate sectors. The Corporation has elected to focus its efforts in these sectors as its level of knowledge and ability to execute complex transactions allows the Company to better understand its clients' needs and is comfortable taking a partnership approach in its business dealings.

MERGER AND ACQUISITION SERVICES

B.C. Pacific provides advice to its clients on their strategic initiatives including acquisitions and divestitures, merger activities and takeover and defence strategies. Our staff has extensive hands-on experience in each of these areas and is committed to working closely with our clients to help ensure the success of their initiatives.

B.C. Pacific will assist in developing the appropriate strategy, identifying and accessing buyers and sellers worldwide and preparing the necessary information documents. We will also help assess appropriate values, develop innovative solutions and effectively manage the detailed legal, tax and financial considerations. Most importantly, we will help to manage the process and negotiate the best possible price. We will also provide the discipline and necessary resources to ensure that the transaction proceeds swiftly and smoothly.

Financial Analysis and Review

During the last five years, B.C. Pacific Capital Corporation ("B.C. Pacific") has been conducting merchant banking and investment activities, primarily in Western Canada with corporate and individual clients and affiliates. During 1998, B.C. Pacific continued its merchant banking activities with particular emphasis on providing acquisition bridge financing. B.C. Pacific also increased its investment in the MGS Partnership to 100% by purchasing its partners' interests. MGS Partnership is involved in the development of residential real estate in Vancouver and Toronto. B.C. Pacific also acquired the remaining outstanding shares of BRL Enterprises and amalgamated it with B.C. Pacific.

BALANCE SHEET ANALYSIS

B.C. Pacific's total assets decreased 3.9% to $268.9 million from $280.2 million as outlined below:

$ Millions	**1998**	1997	% Change
Cash and financial assets	**217.2**	230.5	(5.7)
Corporate and real estate investments	**51.7**	49.7	(4.0)
	268.9	280.2	(3.9)
Secured debt and other payables	**114.7**	111.6	2.7
Minority interest	**–**	15.5	–
Shareholders' Equity	**154.2**	153.1	0.7
Total Liabilities and Shareholders' Equity	**268.9**	280.2	(3.9)

Cash and financial assets decreased 5.7% to $217.2 million during the year. The majority of the decrease resulted from the purchase of the outstanding shares of BRL Enterprises and the elimination of the minority interest. B.C. Pacific's investment portfolio is weighted to natural resources, financial service and real estate companies. Earnings in these investments are cyclical and tied to underlying commodity prices and interest rates. Accordingly their share prices will continue to experience price fluctuations. During the year, prices of several investments increased to levels where positions were sold. Proceeds were used to finance new merchant banking transactions and purchase of preferred shares.

$ Millions	**1998**	1997
Investments & Deposits		
Deposits	**105.3**	147.4
Preferred Share Investments	**57.3**	44.2
Common Share Investments	**7.1**	17.3
	169.7	208.9
Corporate Investments		
Real estate holdings	**28.4**	28.4
MGS Partnership	**23.4**	21.3
	$ 51.8	$ 49.7

Corporate investments increased from $49.7 million to $51.8 million during the year. This increase resulted from gains realized from the sales of the balance of condominium in the Landmark Project in Toronto. These gains are in line with the improvement in the overall residential market.

The Corporation maintained its interest in a strategically located parcel of commercial property in downtown Toronto. With prices of commercial real estate improving and increased interest in higher-end commercial and retail space, the Corporation is moving forward with its plans to redevelop the property over the next several years as a mixed use project. Discussions are currently underway with several joint venture partners.

On June 26, 1998, B.C. Pacific acquired all outstanding shares of BRL Enterprises for cash consideration of $6.75 per common share. After examining many strategic acquisitions over he last several years, B.C. Pacific concluded that privatizing the Company and a subsequent amalgamation with B.C. Pacific was the best available opportunity to maximize value to the BRL common shareholders, as well as simplifying B.C. Pacific's corporate structure.

INCOME STATEMENT ANALYSIS

Revenues resulting from dividends, capital gains, interest income and management fees increased slightly to $23.1 million in 1998 compared to $22.0 million in 1997. An increase in interest rates on the Company's interest bearing investments, new merchant banking loans and capital gains on securities sold provided for the increase.

EXPENSES

Interest expense increased from $3.6 million in 1997 to $4.6 million in 1998 as a result of a significant increase in the prime landing rate for most of 1998 as compared to 1997. Administrative expenses increased during the year, primarily as a result of the costs incurred by B.C. Pacific to complete the BRL purchase and subsequent amalgamation. Other general and administrative expenses remain relatively constant during the year.

NET INCOME

Net income increased 5% to $16.4 million in 1998 from $15.7 million in 1997. The Corporation has issued $150 million of participating preferred shares which in addition to a regular cumulative dividend of 8% are entitled to participate with the Class A and Class B common shares in any common share dividend declared in any year after the Class A and Class B common shares receive dividends equal to 20¢ per share in the case of the Series I and 4¢ per share in the case of the Series II preferred shares.

Any additional dividends if paid, in any year, will be paid on all of the participating preferred shares and Class A and Class B common shares with the dividends paid on the participating preferred shares Series I being 10 times and the Series II being 50 times the amount per Class A and Class B common share.

After providing for a regular dividend of 8% on the Class AAA, Series I and II participating preferred shares, and one-half of the bank prime rate plus 1% on the Class AAA, Series III preferred shares, fully diluted earnings per Class A subordinated voting share and Class B common share were 0.72¢ compared with 0.70¢ in the prior year. All classes of preferred shares were outstanding for the full year. As a result, net income available to the Class A and Class B common and participating preferred shares was $1.2 million in 1998 compared to $1.1 million in

1997. In 1998, there were no earnings attributable to the Series II participating preferred shares which participate on a 50 to 1 basis.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations increased slightly to $16.4 million from $15.7 million. At December 31, 1998 the Corporation had $112.4 million of shorter term assets available to repay demand indebtedness of $69.9 million. The Corporation's deficit at the end of the year was reduced to $83.3 million from $84.4 million in 1997. The Corporation's operating cash requirements are limited to the payment of interest on loans payable and dividends on the Corporation's preferred share capital. At December 31, 1998, the Corporation had a secured demand facility of $69.9 million outstanding. The Corporation's operating cash requirements can be met from dividends and interest earned on the Corporation's investments. The Corporation also continues to maintain an operating line of credit which is satisfactory to meet its investment requirements.

OPERATING ENVIRONMENT

B.C. Pacific's business faces a number of risks and uncertainties, which arise from regulation, competition and economic events. In addition, there are a number of internal issues which will affect future success. The principal factors are discussed below.

TECHNOLOGY

Computer and communications technologies are subject to revolutionary changes as are the applications and costs of these technologies. Such changes may alter the methods of conducting financial services businesses in the future in ways to be determined. B.C. Pacific's operations place a high priority on emerging technological advances in order to sustain their competitive positions in their markets.

The issue of "Year 2000", whereby some computers may have difficulty interpreting which year it is, is not considered to be a significant problem for B.C. Pacific. B.C. Pacific has identified all systems in its business and will have these systems Year 2000-ready by the middle of 1999. No significant costs are expected.

ECONOMIC ENVIRONMENT

The economic environment in the early 1990's had a negative impact on many operations. Individuals were impacted by higher unemployment levels and employment uncertainty while service sector businesses were faced with reduced consumer spending. As a result, activity in several of B.C. Pacific's business sectors were affected. The strong rebound in economic performance over the last three years has provided opportunities for growth in all business areas.

B.C. Pacific believes that its present financial position allows it to pursue and take advantage of such opportunities. However, there is no assurance that the current favourable business conditions will continue.

CURRENCY AND INTEREST RATE RISK

B.C. Pacific endeavours to maintain a matched book of currency sensitive assets and liabilities. Unmatched positions

are carried for trading purposes from time to time within exposure limits determined by the Board of Directors. These exposures are not material in relation to B.C. Pacific's overall business operations.

In previous years, B.C. Pacific's policy of matching liabilities with specific investments which have similar term and yield characteristics, has enabled B.C. Pacific to mitigate the effect of yield volatility on net income to a significant extent.

BUSINESS ENVIRONMENT AND OUTLOOK

B.C. Pacific enters 1999 with a strong asset base and significant liquidity partly as a result of the sale of selective investments that reached full value during the last several years. B.C. Pacific continues to pursue new merchant banking initiatives with specific emphasis on responding to clients requirements' for short-term bridge acquisition financing and examining several private asset workout opportunities in the oil and gas and mining sectors. The Corporation will, as in past years, continue to take a cautious approach to new initiatives and selectively allocate its capital and concentrate on those areas where its management expertise can be best applied.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of B.C. Pacific Capital Corporation as at December 31, 1998 and 1997 and the consolidated statements of income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles. As required by the Company Act (British Columbia) we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG LLP
Chartered Accountants
Vancouver, Canada
April 23, 1999

Management's Reponsibility for Financial Statements

The accompanying consolidated financial statements and other financial information have been prepared by the management of the Corporation who are responsible for the integrity and objectivity of the statements. To fulfil this responsibility, the corporation maintains appropriate systems of internal control to ensure that its costs, reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable assurance that relevant and reliable financial information is produced. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on management's judgement. The financial information presented throughout this annual report is consistent with the information contained in the corporation's consolidated financial statements.

The consolidated financial statements have been further examined by the board of directors and by its audit committee which meets with the auditors and management on a regular basis to review the activities of each. The audit committee reports to the board of directors and is comprised of three directors who are not officers of the Company.

Brian G. Kenning
Director & Chairman

Consolidated Balance Sheets

Years Ended December 31, 1998, with comparative figures for 1997

in thousands of dollars	**1998**	1997
Assets		
Cash and term deposits	**$ 1,071**	$ 755
Marketable securities and advances	**169,730**	208,923
Loans receivable	**46,402**	20,810
Corporate investments (note 3)	**51,792**	49,747
	$ 268,995	$ 280,235
Liabilities and Shareholders' Equity		
Payables and provisions	**$44,840**	$44,640
Secured debt (note 4)	**69,910**	67,021
Non-controlling interest	**–**	15,509
Shareholders' equity:		
Share capital (note 5)	**237,550**	237,550
Deficit	**(83,305)**	(84,485)
	154,245	153,065
Uncertainty due to the Year 2000 Issue (note 10)		
	$ 268,995	$ 280,235

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director Director

Consolidated Statements of Income

Years Ended December 31, 1998, with comparative figures for 1997

in thousands of dollars	**1998**	1997
Revenues	**$ 23,194**	$ 22,068
Expenses:		
Interest	**4,599**	3,567
General and administrative	**1,853**	1,599
Non-controlling interest	**353**	1,187
	$ 6,805	$ 6,353
Net Income	**$ 16,389**	$ 15,715

Consolidated Statements of Deficit

Years Ended December 31, 1998, with comparative figures for 1997

in thousands of dollars	**1998**	1997
Deficit, beginning of year	**$ 84,485**	$ 85,635
Net income	**(16,389)**	(15,715)
Preferred share dividends	**15,210**	14,565
Deficit, end of year	**$ 83,306**	$ 84,485

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year Ended December 31, 1998, with comparative figures for 1997

in thousands of dollars	**1998**	1997
Cash provided by (used in):		
Operations:		
Net income	**$ 16,389**	$ 15,715
Non-controlling interest, an item not involving cash	**353**	1,187
Net change in non-cash operating working capital	**(15,661)**	12,609
	1,081	29,511
Financing:		
Secured debt	**2,889**	4,015
Preferred share dividends	**(15,210)**	(14,565)
	(12,321)	(10,550)
Investments:		
Corporate investments	**(2,045)**	14,218
Loans receivable	**(25,592)**	10,556
Marketable securities and advances	**39,193**	(43,726)
	11,556	(18,952)
Increase in cash and term deposits	**316**	9
Cash and term deposits, beginning of year	**755**	746
Cash and term deposits, end of year	**$ 1,071**	$ 755

See accompanying notes to consolidated financial statements.

In thousands of dollars, except for per share information

Years Ended December 31, 1998 and 1997

1. BASIS OF PRESENTATION AND AMALGAMATION.

The consolidated financial statements give effect to the increased interest in BRL Enterprises Inc. ("BRL") from 62.7% to 100% as at June 26, 1998 and the amalgamation of BRL into the accounts of B.C. Pacific Capital Corporation (the "Company") as of December 31, 1998. The increased interest in BRL has been accounted for as a step by step purchase under the purchase method of accounting. The non-controlling interest in BRL, with a book value of $15,863,000 at the date of acquisition, was acquired for $14,599,000; resulting in a purchase price discrepancy of $1,264,000 which has been applied against the book value of the related investments.

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Company are summarized below:

(a) Principles of consolidation:

The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

(b) Investments:

Investments are valued at the lower of cost and their estimated net realizable value with any adjustment required charged against income.

(c) Revenues:

Revenues include equity accounted income from affiliates, dividends, interest, fees, and income or losses on merchant banking transactions that are substantially complete and collection is assured.

(d) Foreign currencies:

The Company's policy is to maintain balanced foreign currency positions with all assets and liabilities in foreign currencies translated into Canadian dollars at the year end exchange rates. Net gains and losses resulting from the translation are included in income.

(e) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. CORPORATE INVESTMENTS:

Corporate investments includes an investment in the MGS Partnership (owned 100% by the Company and its subsidiary) and real estate in Toronto.

The Company is in the process of liquidating its 100% interest in the MGS Partnership and has sold a significant portion of its residential real estate during the year. The Partnership's principal asset at December 31, 1998 is an advance of $21,193,000 to Brookfield Properties Corporation, a related party.

MGS holds a 40% interest in a real estate project on which Brookfield had advanced approximately $34,500,000 guaranteed by MGS. During the year, Brookfield foreclosed on the project and released MGS from its guarantee. MGS carried its share of the project at a book value of approximately $4,200,000, net of reserves recorded in previous years and its share of the indebtedness at $14,600,000. As a result of the foreclosure and release of guarantee, the Company has recorded a gain on foreclosure included in 1998 revenues of $10,400,000.

4. SECURED DEBT:

The secured debt is secured by fixed and floating charges over all of the Company's assets. The average effective interest rate in effect at December 31, 1998 was 6.7% (1997 – 5.0%).

5. SHARE CAPITAL:

Authorized:

20,000,000	Class A Preferred shares
20,000,000	Class AA Preferred shares
20,000,000	Class AAA Preferred shares
200,000,000	Class A Subordinate Voting shares without par value
100,000,000	Class B Common shares without par value

Issued and outstanding:

		1998	1997
3,000,000	Class AAA cumulative, participating Preferred shares, Series I, bearing a fixed dividend rate of 8%	**$ 75,000**	$ 75,000
3,000,000	Class AAA cumulative, participating Preferred shares, Series II, bearing a fixed dividend rate of 8%	**75,000**	75,000
3,000,000	Class AAA cumulative Preferred shares, Series III, bearing a dividend rate of one-half of the prime rate plus 1%	**75,000**	75,000
11,684,009	Class A Subordinate Voting shares	**11,385**	11,385
1,895,758	Class B Common shares	**1,165**	1,165
		$ 237,550	$ 237,550

6. INCOME TAXES:

No provision for income taxes has been provided due to the application of prior years' losses. Non-capital losses of approximately $ nil (1997 - $3,000) are available to reduce taxable income that may arise in the future.

7. RELATED PARTY TRANSACTIONS:

In the ordinary course of business, the Company carries on certain transactions with its affiliates which are conducted on normal business terms. Marketable securities and advances are made up of securities in and advances to affiliates. Loans receivable include $18,000 (1997 – $18,000) of loans to affiliates and $582 (1997 – $567) of loans to executives of the Company. Interest expense was paid on the secured debt due to EdperBrascan Corporation, an affiliate, of $4,599 (1997 – $3,213). Revenues include $ 5,167 (1997 – $5,032) received from affiliates.

8. NET INCOME PER CLASS A AND CLASS B COMMON SHARE:

Net income per Class A and Class B common share is calculated using the weighted average number of Class A and Class B common and participating preferred shares outstanding and after the payment of a regular dividend of 8% on the Class AAA Series I and II participating preferred shares and one-half of the bank prime rate plus 1% on the Class AAA Series III preferred shares.

The Class AAA participating preferred shares Series I and II are entitled to receive cumulative preferential cash dividends of 8% per annum and will participate with the Class A and Class B common shares in any common share dividend declared in any year after the Class A and Class B common shares receive dividends equal to $0.20 per share in the case of the Series I and $0.04 per share in the case of the Series II preferred shares. Any additional dividends in the year will be paid on all of the participating preferred shares and Class A and Class B common shares with the dividends paid on the participating preferred shares Series I being ten times and the Series II being fifty times the amount per Class A and Class common share.

	1998	1997
Net income	**$ 16,389**	$ 15,715
Preference share dividends	**15,210**	14,565
Net income available to Class A and Class B common and participating preferred shares	**1,179**	1,150
Net income per class A and Class B common share	**$ 0.0072**	$ 0.0070
Earnings per particpating preferred share	**$ –**	$ –
Weighted average participating shares outstanding	**163,579,767**	163,579,767

9. FINANCIAL INSTRUMENTS:

The carrying value of marketable securities and advances approximates quoted market value at December 31, 1998 and 1997.

The carrying value of the loans receivable, payables and provisions, and the secured debt approximate their fair value as interest earned or incurred thereon approximates market rates and/or because of the short maturity of the instruments.

10. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Corporate Information

DIRECTORS

Robert J. Harding	*Chairman* EdperBrascan Corporation
Howard J. Kellough, Q.C.	*Barrister and Solicitor* Fraser Milner
Brian D. Lawson	*Managing Partner* Trilon Financial Corporation
Brian G. Kenning	*Managing Partner and Chairman* B.C. Pacific Capital Corporation
Terrence A. Lyons	*Managing Partner and President* B.C. Pacific Capital Corporation
Bruce M. McKay	*Barrister and Solicitor* Fraser Milner

OFFICERS

Brian G. Kenning	*Managing Partner and Chairman*
Terrence A. Lyons	*Managing Partner and President*
Bruce M. McKay	*Corporate Secretary*
Nicole Bourgouin	*Assistant Secretary*

CORPORATE INFORMATION

Legal Counsel	*Fraser Milner, Vancouver, B.C.*
Auditors	*KPMG LLP, Vancouver, B.C.*
Stock Transfer Agent & Registrar	*Montreal Trust Company, Vancouver, B.C.*
Stock Exchange	*Vancouver Stock Exchange*
Ticker Symbols	*Common Shares: BPQ.A, BPQ.B*

HEAD OFFICE

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